

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 PA-04 PRS-01 USIA-15 DRC-01 /173 W

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R 191845Z JUL 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2298

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JULY 19

BEGIN SUMMARY: STERLING STRENGTHENED AGAINST THE DOLLAR

THIS WEEK CLOSING AT \$2.3930 ON THURSDAY (JULY 18), UP 100

POINTS ON LAST WEEK'S CLOSE. THE AVERAGE WEIGHTED DEPRE-

CIATION REMAINED IN THE REGION OF 17 PERCENT. GOLD MOVED

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STEADILY UPWARD CLOSING AT \$144.75 ON THURSDAY (JULY 18),

UP \$7.50 ON LAST THURSDAY'S CLOSE. AS BACKGROUND FOR CHANCELLOR HEALEY'S ANNOUNCEMENT OF A MINI-BUDGET ON MONDAY, JULY 22, STATISTICS ON RETAIL SALES AND PRODUCTION SUGGEST DEMAND AND OUTPUT IN THE ECONOMY HAVE REMAINED SLUGGISH IN RECENT MONTHS. CONSUMER EXPENDITURE FIGURES FOR THE SECOND QUARTER ADD TO THIS BY SHOWING A DROP OF 1-1/2 PERCENT BETWEEN THE FIRST AND SECOND QUARTERS OF 1974. UNEMPLOYMENT ALSO ROSE FOR THE SECOND MONTH IN A ROW, TO STAND AT 2.6 PERCENT. HOURLY WAGE RATES IN JUNE WERE UP 16.2 PERCENT OVER A YEAR AGO. END SUMMARY

1. FOREIGN EXCHANGE MARKETS WERE VERY QUIET THIS WEEK WITH ONE DEALER SAYING THAT BUSINESS WAS ONLY 30 PERCENT OF NORMAL. THE MARKET HAS BEEN VERY UNEASY SINCE THE COLLAPSE OF HERSTATT AND ONLY TRADE RELATED TRANSACTIONS ARE TAKING PLACE. THE POUND HAS BEEN VERY STABLE AGAINST THE DOLLAR, ALTHOUGH IT STRENGTHENED SOMEWHAT TOWARDS THE END OF THE WEEK GAINING 40 POINTS ON WEDNESDAY (JULY 17) AND 20 POINTS ON THURSDAY (JULY 18), CLOSING AT \$2.3930. THE TRADE WEIGHT DEVALUATION AGAINST SMITHSONIAN RATES WIDENED TO 17.15 PERCENT ON WEDNESDAY (JULY 17) BUT NARROWED TO 17.01 PERCENT ON THURSDAY (JULY 18). GOLD MOVED STEADILY UPWARD CLOSING AT \$144.75 ON THURSDAY (JULY 18).

2. CHANCELLOR HEALEY IS SCHEDULED TO MAKE A STATEMENT TO PARLIAMENT ON MONDAY, JULY 22, LASTING 10 TO 15 MINUTES. WHILE NO ONE KNOWS EXACTLY WHAT MEASURES THE CHANCELLOR WILL ANNOUNCE, THE TIMES EXPECTS THE MEASURES WILL GIVE MILD STIMULUS TO THE ECONOMY. HE IS EXPECTED TO EASE CREDIT TERMS, RELAX DIVIDEND RESTRAINT AND PERHAPS MAKE USE OF THE ECONOMIC REGULATOR (I.E. ADJUST VAT RATES). SUCH MEASURES COULD ALL BE TAKEN WITHOUT LEGISLATION.

3. THE PROVISIONAL RETAIL SALES FIGURES FOR JUNE SHOW A JUMP OF 2-1/2 PERCENT IN VOLUME TO 108 FROM 105.4 IN MAY (1971100). HOWEVER, THIS IS NEARLY 2 PERCENT BELOW ITS LEVEL OF A YEAR EARLIER. IN SECOND QUARTER 1974, RETAIL SALES WERE 2-1/2 PERCENT DOWN ON THE FIRST QUARTER. THE RECOVERY IN JUNE MAY HAVE BEEN INFLUENCED BY THE INCREASE IN EARNINGS PAID UNDER THRESHOLD AGREEMENTS, WHICH IN TURN UNCLASSIFIED

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MAY HAVE CONTRIBUTED TO INCREASED SPENDING.

4. THE INDEX OF INDUSTRIAL PRODUCTION FOR ALL INDUSTRIES STOOD AT 108.6 IN MAY, LITTLE CHANGED FROM 108.4 IN APRIL (1970100). THE INDEX FOR MANUFACTURING AS A WHOLE, IN FACT, FELL TO 108.7 IN MAY FROM 109.9 IN APRIL. BOTH INDEXES REMAIN WELL BELOW LEVELS OF LAST FALL.

5. CONSUMER'S EXPENDITURE WAS 1-1/4 PERCENT LOWER IN THE SECOND QUARTER THAN IN THE FIRST QUARTER STANDING AT 8,760 MILLION POUNDS COMPARED TO 8,871 MILLION POUNDS.

6. THE NUMBER OF UNEMPLOYED (S.A.) INCREASED BY 20,200 TO 581,600 (2.6 PERCENT OF ALL EMPLOYEES) IN THE PERIOD TO MID-JULY. BOTH THE ORDINARY AND THE SEASONALLY ADJUSTED UNEMPLOYMENT FIGURES SHOWED THE BIGGEST JUMP FOR SIX MONTHS. AFTER FALLING IN THE MONTHS WHEN INDUSTRY WAS MAKING UP THE OUTPUT LOST DURING THE THREE-DAY WEEK, UNEMPLOYMENT NOW DEFINITELY SEEMS TO HAVE ASSUMED THE UPWARD TREND WHICH IS CONSISTENT WITH THE MANY BEARISH FORECASTS CIRCULATING IN WHITEHALL AND ELSEWHERE.

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R 191845Z JUL 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2299

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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7. THE INDEX OF WEEKLY WAGES STOOD AT 133.9 (JULY 1972 100) IN JUNE, 16.2 PERCENT ABOVE A YEAR AGO. THE IMPLEMENTATION OF THRESHOLD PAYMENTS OF UP TO 80 PENCE A WEEK WAS THE PRINCIPAL FACTOR BEHIND A 3 PERCENT JUMP BETWEEN MAY AND JUNE. THE INDEX OF AVERAGE EARNINGS, WHICH IS PUBLISHED WITH A MONTH LAG AND THUS DOES NOT FULLY REFLECT THRESHOLD AGREEMENTS, WAS 169.3 IN MAY (JANUARY 1970=100) 13.3 PERCENT ABOVE A YEAR AGO.

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8. FORWARD STERLING AT ONE MONTH WAS AT A SMALL PREMIUM AT THE BEGINNING OF THE WEEK, BUT IT MOVED TO A DISCOUNT ON TUESDAY (JULY 16) WITH THE DISCOUNTS AT THREE AND SIX MONTHS GENERALLY WIDENING OVER THE WEEK AS WELL.

	7/11	7/18	CHANGE
1 MONTH	0.07-1/2	0.16	UP 0.08-1/2
3 MONTHS	1.15-1/2	1.18-1/2	UP 0.03
6 MONTHS	4.05	3.85	DOWN 0.20

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES ROSE SHARPLY ON MONDAY AND TUESDAY, BUT MOVED marginally DOWNWARD TOWARDS THE END OF THE WEEK.

	7/11	7/18	CHANGE
1 MONTH	12-1/16	12-9/16	UP 1/2
3 MONTHS	13-5/16	13-5/16	UNCHANGED
6 MONTHS	13-9/16	13-9/16	UNCHANGED

10. EURODOLLAR RATES CONTINUED TO FALL.

	7/11	7/18	CHANGE
1 MONTH	13-3/4	12-1/2	DOWN 1-1/4
3 MONTHS	13-3/4	12-3/4	DOWN 1
6 MONTHS	13-3/4	12-3/4	DOWN 1

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-3/4 PERCENT ON FRIDAY, JULY 19, 1974.

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